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UNCLAS SECTION 01 OF 02 LIMA 004184

SIPDIS

SENSITIVE

DEPT FOR WHA/AND, EB/TPP/ABT - E HEARTNEY
COMMERCE FOR ITA/OTEXA/MARIA D'ANDREA
USTR FOR B. HARMAN and A. HEYLIGER

E.O. 12958: N/A

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SUBJECT: PERU: UPDATED TEXTILE AND APPAREL INFORMATION

REF: A) STATE 146213 B) LIMA 68 C) 04 LIMA 5445

1. (SBU) Summary. Peru's textile and apparel sectors have grown rapidly in the past few years, due primarily to benefits under the Andean Trade Promotion and Drug Eradication Act (ATPDEA). While textile and apparel exports values increased from \$823 million in 2003 to \$1.09 billion in 2004, this sector accounts for less than 12 percent of Peru's overall exports. Peru's textile sector faces severe competition from cheaper Chinese imports, which undermines the ability of local producers to sell domestically. Peru lifted its safeguards on Chinese textiles in May, but the GOP is currently negotiating with the Chinese government to apply "self-imposed" limitations on Chinese exports to Peru. The key to the competitiveness of Peru's textile sector is ATPDEA, which will expire in December 2006. Without a free trade agreement (FTA) to replace ATPDEA, Peru's textile and apparel production would decline and products would be less competitive on the world market. End Summary.

Production

2. (U) According to the Central Bank, manufacturing and industrial production in 2004 totaled \$10.5 billion, an increase from 2003 level of \$9.2 billion. Textile and apparel production accounts for a small portion of Peru's total industrial production. The Central Bank reports that Peru's 2004 textile and apparel production reached \$1.5 billion, an increase from \$1.4 billion in 2003.

Imports and Exports

3. (U) Peruvian total imports increased from \$8.25 billion in 2003 to \$9.8 billion in 2004. Textile and apparel imports comprised approximately 3.6 percent of this total. According to the Central Bank, Peruvian imports of textiles and apparel totaled \$358 million in 2004, increasing from \$314 million in 2003.

4. (U) The Central Bank also reported that Peru's total exports in 2004 reached \$12.6 billion, a dramatic increase from \$9.1 billion in 2003. As a percentage of exports, textiles and apparels accounted for only 8.7 percent of exports in 2004, a slight decrease from 9.1 percent in 2003. Although textile and apparel exports account for a small portion of total exports, these exports grew at a rate of 25% from 2003 to 2004, from \$823 million to \$1.1 billion. The majority of Peruvian textile and apparel exports include manufactured cotton garments and basic textile products (spun and woven cotton and wool). Textile industry representatives indicate that the substantial increase in Peruvian exports, particularly of textiles and apparel, is directly linked to ATPDEA, which expanded benefits to include Peruvian apparel products.

Peruvian Import and Export Levels, 2003-2004

	USD, millions		Percent Share	
	2003	2004	2003	2004
Exports				
Textiles	165.0	218.0	1.5	1.7
Apparel	654.0	874.0	7.6	7.0
Textile/Apparel	823.0	1092.0	9.1	8.7
Total Exports	9091.0	12617.0	100.0	100.0
Imports				
Textiles	207.2	238.0	2.5	2.4
Apparel	107.6	120.0	1.3	1.2
Textiles/Apparel	314.8	358.0	3.8	3.6
Total Imports	8254.5	9824.0	100.0	100.0

Source: INEI (Statistics Bureau), Central Bank

5. (SBU) While official statistics on 2005 textile exports are not yet available, local industry officials informed us that approximately 65 percent of Peruvian apparel was

shipped to the United States during the first six months of the year. According to the Lima Chamber of Commerce, textile and apparel exports totaled \$390.4 million through June 2005, an increase of 17 percent year/year. The Lima Chamber of Commerce emphasized that USG limitations on certain Chinese textile and apparel products enables Peruvian products to compete for the U.S. market.

Employment -----

16. (U) The Peruvian Census Bureau estimates that there are currently close to 14 million people in the labor force, with 10 percent working in the manufacturing sector. Of these, the Ministry of Trade and Tourism (Mincetur) estimates that in 2004, approximately 130,000 individuals were gainfully employed in the textile and apparel industry, accounting for less than 3 percent of total employment. Much of the employment in the textile industry, however, is informal and these statistics do not accurately reflect true employment patterns.

----- Total Manufacturing and Textiles/Apparel Employment 2002-2003 -----				
	2002	2003	Percent Share	
			2002	2003
Total Manufacturing	1,173,260	1,164,086	9.7	8.9
Textiles	353,943	354,140	2.9	2.7
Total employment	12,070,072	13,013,298	100.0	100.0

Source: Unpublished data from Peruvian Department of Labor

No Safeguards on Chinese Products -----

17. (U) Peru was one of the few countries that imposed safeguards on Chinese textiles before the elimination of the WTO's Multi-Fiber Agreement (MFA) (ref B). In October 2004, the GOP established temporary safeguards on 20 sensitive textile products; these protections expired on May 1. After conducting a review of the textile industry from October 2004-March 2005, the GOP decided not to extend these safeguards. To appease the opponents, the GOP passed new customs regulations calling for "special attention" on 36 different imported items, including 13 sensitive textile products, stating that if not monitored, these products could harm local industry. The new regulations also gave Customs the power to place additional tariffs on these 36 products if it detects that importers are engaging in fraudulent behavior, such as dumping.

18. (U) Despite new regulations, local industry and several export societies continue to demand that the GOP reinstate textile safeguards. Instead of bowing to public pressure, the Ministry of Production began negotiations with China in August to encourage China to place a "self-imposed" limitation on Chinese textile exports to Peru. Although the Ministry of Production claims that GOP officials made significant advances during the last round of negotiations with China in early September, the GOP is unable to specify when the negotiations will end.

Comment -----

19. (SBU) Peru's small but vibrant textile sector benefits greatly from ATPDEA, which is set to expire at the end of 2006. Without ATPDEA, or a free trade agreement to replace ATPDEA, Peruvian apparel would be unable to compete with Chinese products and products from countries that have preferential trade agreements (such as the Central American countries). The Peruvian Government remains committed to concluding FTA negotiations by November 2005; the government recognizes that the economic benefits of trade are too good to pass up.

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